

**MOJAVE DESERT AIR QUALITY
MANAGEMENT DISTRICT**

**COUNTY OF SAN BERNARDINO
VICTORVILLE, CALIFORNIA**

**AUDITED FINANCIAL STATEMENTS
JUNE 30, 2011**

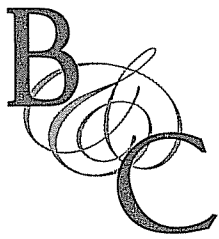
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MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
JUNE 30, 2011

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FINANCIAL INFORMATION



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INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Governing Board
Mojave Desert Air Quality Management District
Victorville, California

We have audited the accompanying financial statements of the governmental activities, general fund, and the aggregate remaining fund information of Mojave Desert Air Quality Management District, as of and for the year ended June 30, 2011, which collectively comprise the Mojave Desert Air Quality Management District basic financial statements as listed in the table of contents. These financial statements are the responsibility of Mojave Desert Air Quality Management District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, general fund, and the aggregate remaining fund information of Mojave Desert Air Quality Management District, as of June 30, 2011, and the respective changes in financial position and, where applicable, cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2011, on our consideration of the Mojave Desert Air Quality Management District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreement and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

**BURKEY COX
EVANS & BRADFORD**

ACCOUNTANCY CORPORATION

Mojave Desert Air Quality Management District

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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison, and funding progress information on pages 3 through 7 and 37 through 40, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Mojave Desert Air Quality Management District's basic financial statements. The required supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Burkey & Cox, CPAs
BURKEY COX EVANS & BRADFORD
Certified Public Accountants

Palmdale, California
November 1, 2011

MANAGEMENT DISCUSSION AND ANALYSIS

Mojave Desert Air Quality Management District
Management's Discussion and Analysis
June 30, 2011

Our discussion and analysis of the District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2011. Please read this in conjunction the basic financial statements.

A. Financial Highlights

The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$6,561,939 (*net assets*). Of this amount \$681,944 (*unrestricted*) may be used to finance the District's day-to-day operations without constraints established by legal requirements.

The District's governmental funds reported total fund balances of \$4,918,694 for the year, \$1,445,439 represented the unreserved fund balance.

B. Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements have three components: 1) Government-wide Financial Statements; 2) Fund Financial Statements, and 3) Notes to the Basic Financial Statements. The District's report also includes required supplementary information to the basic financial statements.

In general, the purpose of financial reporting is to provide the external parties that read the financial statements with information that will help them make decisions or draw conclusions about an entity. In order to address the needs of as many parties as reasonably possible, the District, in accordance with required reporting standards, presents government-wide financial statements and fund financial statements.

Government-wide Financial Statements

The focus of government wide financial statements is the overall financial position and activities of the District. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to commercial enterprises or a private-sector business. These financial statements include the Statement of Net Assets and the Statement of Activities.

The Statement of Net Assets reports all assets held and liabilities owed by the District on a full accrual basis. The difference between the two is reported as *net assets*. This difference is comparable to the total stockholders' equity presented by a commercial enterprise. Over time, increases or decreases in net assets may serve as a useful indicator or whether the financial position of the District is improving or deteriorating.

Management's Discussion and Analysis
Mojave Desert Air Quality Management District

The Statement of Activities reports the net cost of the District's activities by program and is prepared on the full accrual basis. Revenues and expenses are recognized as earned and incurred even though they may not have been received or paid in cash.

The focus of the Statement of Activities is the cost of various program activities performed by the District. The statement begins with a column that identifies the cost of each of the District's major programs. Another set of columns identifies the revenues that are specifically related to these activities. The difference between the expenses and the revenues related to specific program activities represents the net cost of benefit of the program activity.

The District's government-wide financial statements are presented on pages 8 to 9 of this report.

Fund Financial Statements

Unlike government-wide financial statements, the focus of fund financial statements is directed to specific activities of the District rather than the District as a whole.

Governmental Funds

The fund financial statements consist of the Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance. These are prepared on the modified accrual basis of accounting. The government-wide financial statements are prepared on the full accrual basis.

In general, these financial statements under the modified accrual basis have a short-term emphasis and for the most part, measure and account for cash and receivables collectible within a very short period of time, as reported on the balance sheet. The capital assets such as land and buildings are not reported.

Fund liabilities include amounts that are to be paid within a very short period of time after the end of the fiscal year. The long-term liabilities are not included. The difference between a fund's total assets and total liabilities are not included. The difference between a fund's total assets and total liabilities represents the fund balance. The unreserved portion of the fund balance indicates the amount available to finance future activities.

The operating statements for governmental funds report only those revenues and expenditures that were collected in cash or paid with cash during the current period or very shortly after the end of the year.

The District's Balance Sheet is presented on page 10 and Statement of Revenues, Expenditures, and Changes in Fund Balances is presented on page 12 of this report.

The focus of the fund financial statement is narrower than that of the government-wide financial statements. Since different accounting bases are used to prepare the above statements, a reconciliation is required to facilitate the comparison between the fund statements and the government-wide statements. The reconciliation between the total fund balances can be found on page 11 of this report.

Management's Discussion and Analysis
Mojave Desert Air Quality Management District

The reconciliation of the total changes in fund balances for all governmental funds to the change in net assets can be found on page 13 of this report.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 16 to 36 of this report.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the budgetary comparison schedule and budgetary reconciliation.

C. Government-wide Financial Analysis

Our analysis focuses on the net assets and the changes in net assets of the District's governmental activities.

The following schedule is a condensed Statement of Net Assets as of the year ending June 30, 2011, as compared to the prior year.

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Total Assets	\$9,680,806	\$ 8,815,277
Total Liabilities	<u>(3,118,867)</u>	<u>(2,920,909)</u>
Net Assets	\$6,561,939	\$5,894,368

At the close of the most recent fiscal year, the District's assets exceeded liabilities by \$6,561,939.

The largest portion of the District's net assets (53%) is restricted for special programs. These funds are restricted to expenditures for specific purposes. Capital assets (37%) reflect the District's investment in capital assets used by the District (e.g. land, buildings, equipment, software application development, and vehicles). The District uses these capital assets in carrying out its mission of protecting public health while being sensitive to the economic needs of local businesses. Consequently, these assets are not available for future spending. The remaining portion of the District's net assets (10%) is unrestricted, and unreserved, and may be used to meet the District's ongoing obligations in carrying out day-to-day operations.

Management's Discussion and Analysis
Mojave Desert Air Quality Management District

The following schedule is a condensed statement of Changes in Fund Balances as of fiscal year ending June 30, 2011, as compared to the prior year.

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Revenues	\$7,421,381	\$7,606,148
Expenses	<u>(6,847,140)</u>	<u>(7,798,501)</u>
Net Assets	\$574,241	(\$192,353)

Governmental Activities

The objective of the Statement of Activities is to report the full cost of providing government services for the year. The format also permits the reader to ascertain the extent to which each function is either self-financing or draws from the general funds of the District.

The Statement of Activities presents information showing how the District's net assets changed during fiscal year 2010-11. All changes in net assets are reported as soon as the underlying event occurs regardless of the timing of the cash flows.

Fees, grants, state subvention, penalties, and settlements predominantly support the governmental programs of the District. The primary governmental activities of the District include the following: Permit Services and Enforcement, Mobile Source Emission Reduction, Public Education, Air Quality Analysis, and Air Monitoring.

D. Financial Analysis of the District's Funds

Governmental Funds

At the end of the fiscal year, the District's Governmental Funds reported an ending balance of \$4,918,694, an increase of \$574,241 in comparison with the prior year. Approximately 71% of this fund balance (\$3,473,255) are reserved and restricted for specific purposes. The long-term contractual commitments related to these restricted programs involve multiple-year spending. At the end of the fiscal year, the District's unreserved fund balance was \$1,445,439, an increase of \$187,256 in comparison with the prior year. The unreserved fund balance is 100% unrestricted.

E. Capital Assets

The District's investment in capital assets is for its governmental activities. The book value was \$3,018,474 (net of accumulated depreciation of \$3,281,090) as of June 30, 2011. This investment in capital assets includes land, buildings, and improvements, equipment for air monitoring stations, computer and office equipment, video conferencing equipment and District vehicles.

Additional information on the capital assets can be found in the "Notes to Financial Statements," page 28 of this report.

F. Economic Factors and Next Year's Budget

The FY 2011-12 budget calls for expenditures totaling \$7,637,242 with sufficient revenues to pay for those services. The expenditure budget is a decrease of 4.09% from FY 2010-11. This budget also includes continuing projects to improve the automated permit billing system, implementing electronic storage of District records, building improvements, completing a solar project, a video conferencing system, and training/development opportunities for governing board members and staff.

Revenues are projected at \$6,955,211, a 2.14% decrease over last year's projections. This increase can be attributed in part to new permitted facilities and increased revenues from the Carl Moyer Grant Program for administrative support.

G. Requests for Information

This financial report is designed to provide a general overview of the District's finances for readers of the financial statements. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Administrative Services, Mojave Desert Air Quality Management District, 14306 Park Avenue, Victorville, CA 92392-3210.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2011

	<u>Governmental Activities</u>
ASSETS	
Cash and Investments	\$ 4,456,948
Receivables (net of allowances for uncollectibles)	2,195,306
Prepaid Items	10,078
Capital Assets (net of accumulated depreciation):	
Land	278,568
Buildings, Machinery and Equipment	<u>2,739,906</u>
Total Assets	<u>9,680,806</u>
LIABILITIES	
Accounts Payable and Other Current Liabilities	391,717
Due to Local Government Agencies	176,677
Due to Other Government Agencies	17,662
Deferred Revenue	1,157,582
Noncurrent Liabilities:	
Due Within One Year	210,474
Due In More Than One Year	<u>1,164,755</u>
Total Liabilities	<u>3,118,867</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	2,406,740
Restricted for Other Purposes	3,473,255
Unrestricted	<u>681,944</u>
Total Net Assets	<u><u>\$ 6,561,939</u></u>

The accompanying notes are an integral part of these statements.

MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
PRIMARY GOVERNMENT				
Governmental Activities:				
Public Safety:				
Salaries and Benefits	\$ 4,572,012	\$ 3,907,734	\$ 1,076,354	\$ 412,076
Services and Supplies	1,372,973	1,173,491	323,229	123,746
Contributions to Other Participants	771,429	691,309	190,416	110,295
Interest on Long-Term Debt	37,396	0	0	(37,396)
Total Governmental Activities	<u>6,753,810</u>	<u>5,772,533</u>	<u>1,589,998</u>	<u>608,721</u>
Total Primary Government	<u>\$ 6,753,810</u>	<u>\$ 5,772,533</u>	<u>\$ 1,589,998</u>	<u>608,721</u>
General Revenues:				
Unrestricted Investment Earnings				41,779
Miscellaneous				<u>17,071</u>
Total General Revenues				<u>58,850</u>
Change in Net Assets				667,571
Net Assets - Beginning				<u>5,894,368</u>
Net Assets - Ending				<u>\$ 6,561,939</u>

The accompanying notes are an integral part of these statements.

FUND FINANCIAL STATEMENTS

MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2011

	General Fund	Mobile Emissions Program	Carl Moyer Program	Total Governmental Funds
ASSETS				
Cash and Investments	\$ 54,571	\$ 0	\$ 0	\$ 54,571
Cash with Fiscal Agent	1,876,191	2,053,914	472,272	4,402,377
Receivables (net of allowances for uncollectibles)	1,124,047	3,650	1,067,609	2,195,306
Due from Other Funds	39,544	177,139	0	216,683
Prepaid Items	10,078	0	0	10,078
Total Assets	<u>\$ 3,104,431</u>	<u>\$ 2,234,703</u>	<u>\$ 1,539,881</u>	<u>\$ 6,879,015</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable and Other				
Current Liabilities	\$ 374,514	\$ 0	\$ 17,203	\$ 391,717
Due to Other Funds	177,139	0	39,544	216,683
Due to Local Government Agencies	176,677	0	0	176,677
Due to Other Government Agencies	17,662	0	0	17,662
Deferred Revenues	0	0	1,157,582	1,157,582
Total Liabilities	<u>745,992</u>	<u>0</u>	<u>1,214,329</u>	<u>1,960,321</u>
FUND BALANCES				
Non-spendable	0	0	0	0
Restricted	0	2,234,703	325,552	2,560,255
Committed	913,000	0	0	913,000
Assigned	0	0	0	0
Unreserved	1,445,439	0	0	1,445,439
Total Fund Balances	<u>2,358,439</u>	<u>2,234,703</u>	<u>325,552</u>	<u>4,918,694</u>
Total Liabilities and Fund Balances	<u>\$ 3,104,431</u>	<u>\$ 2,234,703</u>	<u>\$ 1,539,881</u>	<u>\$ 6,879,015</u>

The accompanying notes are an integral part of these statements.

**MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2011**

Total Fund Balances - Governmental Funds \$ 4,918,694

Capital assets used for governmental activities are not financial resources and therefore are not reported as assets in Governmental Funds. The cost of the assets is \$6,270,946 and the accumulated depreciation is \$3,141,472. 3,018,474

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, the noncurrent portion of capital leases, compensated absences and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. In general, liabilities that mature or come due for payment during the fiscal year are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a current liability in the fund financial statements when due but rather recognized as an expense when paid.

Long-term liabilities, including all bonds, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Current bond and debt and all long-term liabilities at year end consist of:

Installment Purchase Agreement	\$	491,511	
California Energy Commission		120,223	
Compensated Absences		554,172	
Other Post Employment Benefits		180,400	
Retiree Health Benefits		<u>28,923</u>	
Total			<u>(1,375,229)</u>
Total Net Assets - Governmental Activities			<u>\$ 6,561,939</u>

The accompanying notes are an integral part of these statements.

MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	General Fund	Mobile Emissions Program	Carl Moyer Program	Total Governmental Funds
REVENUES				
Antelope Valley Air Quality Management Contract	\$ 1,089,719	\$ 0	\$ 0	\$ 1,089,719
Application and Permit Fees	4,186,654	0	0	4,186,654
AB 2766 and Other Program Revenues	1,490,159	0	0	1,490,159
Grants	271,716	0	228,563	500,279
Fines	95,720	0	0	95,720
Investment Earnings	18,495	18,267	5,017	41,779
Miscellaneous	17,071	0	0	17,071
	<u>7,169,534</u>	<u>18,267</u>	<u>233,580</u>	<u>7,421,381</u>
Total Revenues				
EXPENDITURES				
Public Safety:				
Salaries and Benefits	4,530,391	0	0	4,530,391
Services and Supplies	1,015,657	0	87,562	1,103,219
Contributions to Other Participants	510,219	120,210	141,000	771,429
Debt Service:				
Principal	172,288	0	0	172,288
Interest and Fiscal Charges	37,396	0	0	37,396
Capital Outlay				
Improvements and Equipment	232,417	0	0	232,417
	<u>6,498,368</u>	<u>120,210</u>	<u>228,562</u>	<u>6,847,140</u>
Total Expenditures				
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>671,166</u>	<u>(101,943)</u>	<u>5,018</u>	<u>574,241</u>
Other Financing Sources (Uses)				
Operating Transfers In	0	350,910	0	350,910
Operating Transfers Out	(350,910)	0	0	(350,910)
	<u>(350,910)</u>	<u>350,910</u>	<u>0</u>	<u>0</u>
Total Other Financing Sources (Uses)				
Net Change in Fund Balances	320,256	248,967	5,018	574,241
Fund Balance - Beginning of Year	<u>2,038,183</u>	<u>1,985,736</u>	<u>320,534</u>	<u>4,344,453</u>
Fund Balance - End of Year	<u>\$ 2,358,439</u>	<u>\$ 2,234,703</u>	<u>\$ 325,552</u>	<u>\$ 4,918,694</u>

The accompanying notes are an integral part of these statements.

**MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011**

Total Net Change in Fund Balances - Governmental Funds \$ 574,241

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.

Fixed Assets Additions	\$	232,417	
Disposal of Asset		(14,309)	
Current Year Depreciation		<u>(255,445)</u>	
Total			(37,337)

Issuance of long-term financial obligations is a source of revenue in the governmental funds, but the receipt of these proceeds increases long-term liabilities in the statement of net assets.

The District issued long term debt during the fiscal year ended June 30, 2011.

Other Post Employment Benefits	(190,200)		
Retiree Health Benefits		<u>(13,668)</u>	
Total			(203,868)

Repayment of long-term financing obligations principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Installment Purchase Agreement	161,356		
California Energy Commission		10,932	
Retiree Health Benefits		28,787	
Compensated Absences		33,460	
Post Employment Benefits		<u>100,000</u>	
Total			<u>334,535</u>

Total Change in Net Assets - Governmental Activities \$ 667,571

The accompanying notes are an integral part of these statements.

**MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2011**

	Post Employment Benefit Trust Fund
ASSETS	
Cash in Trust	\$ 216,079
Total Assets	<u>\$ 216,079</u>
NET ASSETS	
Held in Trust for Post Employment Benefits	\$ 216,079
Total Net Assets	<u>\$ 216,079</u>

The accompanying notes are an integral part of these statements.

**MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Post Employment Benefit Trust Fund</u>
ADDITIONS	
Transfers In	\$ 100,000
Investment Gain	<u>20,850</u>
Total Additions	<u>120,850</u>
DEDUCTIONS	
Fees	258
Investment Loss	<u>0</u>
Total Deductions	<u>258</u>
Net Change in Net Assets	120,592
Net Assets - Beginning of Year	<u>95,487</u>
Net Assets - End of Year	<u><u>\$ 216,079</u></u>

The accompanying notes are an integral part of these statements.

NOTES TO THE FINANCIAL STATEMENTS

MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The combined financial statements of Mojave Desert Air Quality Management District (the "District") have been prepared in conformity with accounting principles applicable to governmental units which are generally accepted in the United States of America. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

A. Reporting Entity

The District's basic financial statements include the accounts of all its operations. The District evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the District's reporting entity, as set forth in GASB Statement No. 14, "The Financial Reporting Entity," include whether:

- the organization is legally separate (can sue and be sued in its name)
- the District holds the corporate powers of the organization
- the District appoints a voting majority of the organization's board
- the District is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the District
- there is fiscal dependency by the organization on the District
- the exclusion of the organization would result in misleading or incomplete financial statements

The District also evaluated each legally separate, tax-exempt organization whose resources are used principally to provide support to the District to determine if its omission from the reporting entity would result in financial statements which are misleading or incomplete. GASB Statement No. 14 requires inclusion of such an organization as a component unit when: 1) The economic resources received or held by the organization are entirely or almost entirely for the direct benefit of the District, its component units or its constituents; and 2) The District or its component units is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the organization; and 3) Such economic resources are significant to the District.

Based on these criteria, the District has no component units or potential component units.

B. New Accounting Pronouncements

GASB Statement 61 - The Financial Reporting Entity; Omnibus – amendment of GASB No. 14 and No. 34 – statement modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as components units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Furthermore, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, this Statement clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination.

MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. For component units that currently are blended based on the “substantively the same governing body” criterion, it additionally requires that (1) the primary government and the component unit have a financial benefit or burden relationship or (2) management (below the level of the elected officials) of the primary government have operational responsibility (as defined in paragraph 8a) for the activities of the component unit. New criteria also are added to require blending of component units whose total debt outstanding is expected to be repaid entirely or almost entirely with resources of the primary government. The blending provisions are amended to clarify that funds of a blended component unit have the same financial reporting requirements as a fund of the primary government. Lastly, additional reporting guidance is provided for blending a component unit if the primary government is a business-type activity that uses a single column presentation for financial reporting.

This Statement also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset.

The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. Earlier application is encouraged.

GASB Statement No. 62 - Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements - is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations.
2. Accounting Principles Board Opinions.
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

Hereinafter, these pronouncements collectively are referred to as the “FASB and AICPA pronouncements.”

This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statement and Interpretations that do not conflict with or contradict GASB pronouncements. However, entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged. The provisions of this Statement generally are required to be applied retroactively for all periods presented.

C. Basis of Presentation, Basis of Accounting

Government-Wide Financial Statements: The statement of net assets and the statement of activities include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. Governmental activities generally are financed through fees, intergovernmental revenues, and other non-exchange transactions.

MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all fees, are presented as general revenues.

Fund Financial Statements: Fund financial statements provide information about the District's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The District reports the following major governmental funds:

General Fund is the District's primary operating fund. It accounts for all financial resources of the District except those required to be accounted for in another fund.

Mobile Emissions Program was established by the District to account for the retention of funds allocated for the support of the District's mobile emissions grant program (AB 2766).

Carl Moyer Program was established by the District to account for revenues received pursuant to the Carl Moyer Memorial Air Quality Standards Attainment Program. Expenditures are restricted to providing incentive for participating entities to undertake reduced-emission heavy-duty engine projects.

The District reports the following nonmajor governmental funds:

Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term obligation principal, interest and related costs.

Fiduciary Fund is used to account for assets held by the District as Trustees. The District maintains one non-major expendable trust fund, Retiree Benefits Fund, which is used to provide contingency reserves for District payment of current and future retiree health and welfare benefits.

D. Measurement Focus, Basis of Accounting

Government-Wide Financial Statements: These financial statements are reported using the economic resources measurement focus. They are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include fees, grants, entitlements, and donations. On an accrual basis, revenue from fees is recognized in the fiscal year for which the fees are charged. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end, and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When the District incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the District's policy to use restricted resources first, and then unrestricted resources.

E. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Government-Wide Financial Statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions:

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, "available" means collectible within the current period or within 60 days after year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include fees, grants, and entitlements. Under the accrual basis, revenue from fees is recognized in the fiscal year for which the fees are charged. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are to be used of the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Deferred Revenue:

Deferred revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred revenue. On governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have also been recorded as deferred revenue.

MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Expenses/Expenditures:

On the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as they are needed.

F. Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in the financial statements:

1. Prior to the beginning of the fiscal year, the District prepares a budget for the next succeeding fiscal year. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain comments from those subject to District fees.
3. Prior to the start of the fiscal year, the budget is legally enacted through passage of a resolution by the Governing Board.

Once a budget is approved, it can be amended only by approval of a majority of the members of the Governing Board. As required by law, such amendments are made before the fact, reflected in the official minutes of the Governing Board and not made after fiscal year end. During the year, the budget was amended as necessary. Budget for the General Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP). Budget amounts are as originally adopted; individual amendments were not material in relation to the original budget.

G. Assets, Liabilities, and Equity

1. Deposits and Investments

The District adopted GASB Statement No. 40, "Deposit and Investment Risk Disclosures," as of July 1, 2004. GASB Statement 40 requires governmental entities to assess categories of risk associated with their deposits and investments and disclose these risks.

Investments are reported at fair value which is determined using selected bases. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national and international exchange are valued at the last reported sales price at current exchange rates. (See Note 2 for further discussion).

2. Inventories and Prepaid Expenditures

Inventories of supplies were not significant as of June 30, 2011.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Capital Assets

In the Government-wide Financial Statements, fixed assets are accounted for as Capital Assets. All fixed assets are reported at cost or estimated historical cost, except for donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$1,000 is used.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Estimated Useful Lives</u>
Buildings	20 - 50 years
Building and Improvements	20 years
Vehicles	5 years
Equipment	15 - 20 years
Computer Equipment	3 - 15 years

4. Receivable and Payable Balances

The District believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

Accounts receivable are deemed by management to be fully collectible at June 30, 2011, and therefore no allowance for doubtful accounts has been established.

5. Compensated Absences

Vacation and sick leave are recognized as expenses in the period accrued by the employee (with certain limitations). The current and non-current portion of accumulated unpaid vacation and sick leave as of June 30, 2011 was \$554,172.

6. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures of expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as reimbursements. All other interfund transactions are treated as transfers. Transfer in and transfers out are netted and presented as a single "transfers" line on the government-wide statement of activities.

H. Use of Estimates

The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures or expenses, as appropriate, during the reporting period. Actual results could differ from those estimates.

MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Fund Equity

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated.

The following is a description of the reserves and designations used by the District.

- a. Reserved for Special Programs – Representing funds received and accumulated for specific grant program expenditures to be incurred at a future date.
- b. Reserved by District– Represents funds resolved for future contingencies that may occur that are not anticipated or known as of June 30, 2011.

J. Fund Balance Reserves and Designations

Non-spendable Fund Balance The portion of fund balance reflecting assets not in spendable form, either because they will never convert to cash (such as prepaid items) or must remain intact pursuant to legal or contractual requirements (such as the principal of a permanent endowment).

Non-spendable Revolving Cash The portion of fund balance reflecting the value of the revolving cash account.

Non-spendable Stores The portion of fund balance reflecting the value of stores.

Non-spendable Prepaid Items The portion of fund balance reflecting the value of prepaid items.

All Other Non-spendable Assets The portion of fund balance reflecting the value of non-spendable assets not specified above. For example, this object issued for the legal reserve required for Certificates of Participation, the long-term portion of notes receivable, or the principle of a permanent endowment.

Reserve for Encumbrances (Budgetary account) An account set aside to provide for encumbrances. Generally, encumbrances are closed at the end of the fiscal year, and new purchase orders or contracts are opened for the subsequent year. However, the District should disclose in a footnote to the financial statements significant encumbrances that are included in the subsequent year's budget.

Restricted Fund Balance

Restricted Balance The portion of fund balance representing resources subject to externally imposed and legally enforceable constraints imposed either by external resource providers, e.g., grantors or creditors, or by law through constitutional provisions or enabling legislation. Examples include unspent balances or restricted state and federal grants, and unspent proceeds of general obligation bonds

MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Committed Fund Balance The portion of fund balance representing resources whose use is constrained by limitations self-imposed by the District through formal action of its highest level of decision-making authority. The constraints can be modified or removed only through the same process by which they were imposed. The action imposing the constraint must be made by the end of the reporting period. The actual amounts may be determined at a later date, prior to the issuance of the financial statements.

Stabilization Arrangements The portion of fund balance set aside pursuant to a stabilization arrangement more formal than the reserve for economic uncertainties recommended by the Criteria and Standards for fiscal solvency or other minimum fund balance policy. The level of constraint must meet the criteria to be reported as committed, and the circumstances in which the resources are used must be specific and non-routine. The formal action imposing the constraint should identify and describe in sufficient detail the circumstances in which the amounts may be used. Minimum fund balance policies and other stabilizing arrangements that do not match the criteria to be reported as committed are reported as unassigned.

Other Commitments The portion of fund balance representing commitments other than stabilization arrangements.

Assigned Fund Balance The portion of fund balance representing resources that are intended to be used for specific purposes but for which the constraints do not meet the criteria to be reported as restricted or committed. Intent may be established either by the District's highest level of decision-making or by a designated body or official. Constraints giving rise to assigned fund balance may be imposed at any time before the financial statements are issued, and may be modified or removed by a process less formal than is required for committed fund balance. In governmental fund types other than the general fund, this is the residual fund balance classification.

Other Assignments The position of fund balances representing assignment.

Unassigned Fund Balance The portion of fund balance not classified as non-spendable, restated, committed, or assigned.

Reserve for Economic Uncertainties The position of unassigned fund balance set aside pursuant to a minimum fund balance policy. This amount includes the reserve recommended by the Criteria and Standards for fiscal solvency, as well as additional reserve established pursuant to local policy.

Unassigned/Unappropriated In the general fund, residual fund balance in excess of amount reported in the non-spendable, restricted, committed or assigned fund balance classifications and net of Reserve for Economic Uncertainties.

In all governmental funds including the general fund, the excess of non-spendable, restricted, and committed fund balance over total fund balance (deficits). Assigned amounts must be reduced or estimated if a deficit exists.

For budgetary purposes, this account represents the excess of estimated revenue and estimated other financial sources over appropriations and estimated other financing uses.

MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Implementation of New Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of Statement 54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe the constraints imposed upon the use of the resources reported in the governmental funds. The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type and permanent fund type are clarified by the provisions in this Statement. The requirements of this Statement are effective for financial statements periods beginning after June 15, 2010, and have been implemented on this financial statement.

NOTE 2 – CASH AND INVESTMENTS

General

The District has adopted Governmental Accounting Standards Board Statement 31 (GASB 31) which requires investments of governmental agencies to be reported at fair value. However, investment pools, such as a state or county treasury, may report the value of short-term investments with remaining maturities of less than 90 days at amortized costs. The majority of the County Treasury investments have a remaining maturity of less than 90 days. In addition, GASB 31 does not apply to immaterial cost/value differences. The District has chosen to continue to reflect investments in the County Treasury at cost.

Unrestricted and Restricted

Cash and investments consisted of the following at June 30, 2011:

	Unrestricted	Restricted		
	General	Mobile	Carl	
	Fund	Emissions	Moyer	Total
Cash on Hands and in Banks	\$ 54,571	\$ 0	\$ 0	\$ 54,571
Pooled Investments - San Bernardino County Treasury	1,876,191	2,053,914	472,272	4,402,377
Total	<u>\$ 1,930,762</u>	<u>\$ 2,053,914</u>	<u>\$ 472,272</u>	<u>\$ 4,456,948</u>

All cash and time deposits are entirely insured or collateralized. The California Government Code requires state banks to secure District deposits by pledging government securities as collateral. The fair value of pledged securities must equal at least 110% of the District's deposits. The District may waive collateral requirements for deposits that are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC).

The surplus funds of the District may be invested in any of the approved investments contained in the California Government Code Sections 53600 et seq., limited further by the investment policy adopted by the District.

MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 2 – CASH AND INVESTMENTS (Continued)

Investments Authorized by the Entity's Investment Policy

The District's investment policy authorizes investment in the local government investment pool administered by San Bernardino County. The District's investment policy does not contain any specific provisions intended to limit the District's exposure to interest rate risk, credit risk, and concentration of credit risk.

Additionally, the District may invest idle or surplus funds in accordance with California Government Code Section 53601. The table below identifies the investment types that are authorized for the District by the California Government Code. The table also identifies certain provisions of the California Government Code that addresses interest rate risk, credit rate risk, and concentration of credit risk

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds	5 years	None	None
U. S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	None	None
Commercial Paper	180 days	None	None
Negotiable Certificates of Deposits	5 years	None	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	1 year	None	None
Medium-Term Notes	5 years	None	None
Mutual Funds	N/A	None	None
Money Market Mutual Funds	N/A	None	None
Mortgage Pass-Through Securities	5 years	None	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Funds (LAIF)	N/A	None	None

Investments Authorized by Debt Agreements

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the maturity date of each investment:

	Maturity Date	Carrying Amount	Fair Value Adjustment *	Fair Value
San Bernardino County Investment Pool:				
Unrestricted	12 months average	\$ 1,876,191	\$ 96,252	\$ 1,972,443 *
Restricted	12 months average	\$ 2,526,186	\$ 129,598	\$ 2,655,784 *

* Due to the immaterial nature of the Fair Value Adjustment, the San Bernardino County Investment Pool balances are reflected at their carrying amount in the financial statements.

MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 2 – CASH AND INVESTMENTS (Continued)

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. San Bernardino County Investment Pool does not have a rating provided by a nationally recognized statistical rating organization.

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code.

Investments in any one issuer that represent 5% or more of total investments by reporting unit are as follows:

As of June 30, 2011 \$4,402,377 of the cash and investments are held in the form of a nonnegotiable unrated investment in the San Bernardino County Investment Pool.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

None of the District's deposits with financial institutions were in excess of federal depository insurance limits.

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools such as the San Bernardino County Investment Pool.

Investment in San Bernardino County Investment Pool

The District is a voluntary participant in the San Bernardino County Investment Pool that is regulated by the California Government Code under the oversight of the Treasurer of the County of San Bernardino. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by San Bernardino County for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by San Bernardino County, which are recorded on an amortized cost basis.

**MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 2 – CASH AND INVESTMENTS (Continued)

Derivative Investments

The District did not directly enter into any derivative investments.

NOTE 3 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

As of June 30, 2011, expenditures exceeded the revised budget estimates in individual funds as follows:

	<u>Excess Expenditures</u>
General Fund	
Public Safety:	
Contributions to Other Participants	\$ 11,414
Debt Service:	
Principal	\$ 10,932
Carl Moyer Program	
Public Safety:	
Contributions to Other Participants	\$ 141,000

NOTE 4 – ACCOUNTS RECEIVABLE

Receivables at June 30, 2011, consist of the following:

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Totals</u>
Federal Government:			
Grant Program	\$ 0	\$ 0	\$ 0
Total Federal	<u>0</u>	<u>0</u>	<u>0</u>
State Government:			
Department of Motor Vehicles		0	0
Carl Moyer	0	1,066,490	1,066,490
Total State	<u>0</u>	<u>1,066,490</u>	<u>1,066,490</u>
Local Government:			
Local Sources	1,119,426	0	1,119,426
Interest Receivable	4,621	4,769	9,390
Total Local	<u>1,124,047</u>	<u>4,769</u>	<u>1,128,816</u>
Total Accounts Receivable	<u>\$ 1,124,047</u>	<u>\$ 1,071,259</u>	<u>\$ 2,195,306</u>

MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 5 – CAPITAL ASSETS

The changes in fixed assets for the year ended June 30, 2011, are shown below:

	Balance July 01, 2010	Additions	Deletions	Balance June 30, 2011
<u>Governmental Activities:</u>				
Capital assets not being depreciated:				
Land	\$ 278,568	\$ 0	\$ 0	\$ 278,568
Total capital assets not being depreciated	<u>278,568</u>	<u>0</u>	<u>0</u>	<u>278,568</u>
Capital Assets being depreciated:				
Buildings and Improvements	2,566,957	46,942		2,613,899
Equipment	<u>3,207,313</u>	<u>185,475</u>	<u>14,309</u>	<u>3,407,097</u>
Total capital assets being depreciated	<u>5,774,270</u>	<u>232,417</u>	<u>14,309</u>	<u>6,020,996</u>
<u>Less accumulated depreciation for:</u>				
Buildings and Improvements	(738,497)	(120,405)		(858,902)
Equipment	<u>(2,258,530)</u>	<u>(149,349)</u>	<u>(14,309)</u>	<u>(2,422,188)</u>
Total accumulated depreciation	<u>(2,997,027)</u>	<u>(269,754)</u>	<u>(14,309)</u>	<u>(3,281,090)</u>
Total capital assets being depreciated, net	<u>2,777,243</u>	<u>(37,337)</u>	<u>0</u>	<u>2,739,906</u>
Governmental activities capital assets, net	<u>\$ 3,055,811</u>	<u>\$ (37,337)</u>	<u>\$ 0</u>	<u>\$ 3,018,474</u>
Depreciation was charged to functions as follows:				
Public Safety - Other	<u>\$ 255,445</u>			
Total Depreciation Expenses	<u>\$ 255,445</u>			

MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 6 – INTERFUND TRANSACTIONS

Due From / Due To Other Funds – All interfund balances are expected to be repaid within the next fiscal year and are considered ordinary in nature. The composition of interfund balances as of June 30, 2011, is as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Carl Moyer Program	\$ 0	\$ 39,544
Mobile Emissions Program	177,139	0
General Fund	<u>39,544</u>	<u>177,139</u>
Totals	<u>\$ 216,683</u>	<u>\$ 216,683</u>

Transfers In / Transfers Out – Individual fund interfund transfers for the fiscal year ended June 30, 2011, were as follows:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>	<u>Purpose</u>
Mobile Emissions Program	General Fund	<u>\$ 350,910</u>	To transfer mobile emissions revenue to the Mobile Emissions Fund.
	Total	<u>\$ 350,910</u>	

NOTE 7 – SHORT-TERM DEBT ACTIVITY

The District had no short-term debt issued or outstanding during the fiscal year ended June 30, 2011.

MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 8 – LONG-TERM DEBT OBLIGATIONS

A summary of changes in general long-term debt at June 30, 2011, follows:

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011	Due Within One Year
City National Bank	\$ 652,867	\$ 0	\$ 161,356	\$ 491,511	\$ 170,332
Energy Conservation	131,155	0	10,932	120,223	11,355
Subtotal	784,022	0	172,288	611,734	181,687
Retiree Health Benefits	44,042	13,668	28,787	28,923	28,787
Compensated Absences	587,632	0	33,460	554,172	0
Post Employment Benefits	90,200	190,200	100,000	180,400	0
Subtotal	721,874	203,868	162,247	763,495	28,787
Totals	<u>\$ 1,505,896</u>	<u>\$ 203,868</u>	<u>\$ 334,535</u>	<u>\$ 1,375,229</u>	<u>\$ 210,474</u>

Debt service requirements on long-term debt, excluding employment benefits, at June 30, 2011, are as follows:

Year Ending June 30,	Principal	Interest	Total
2012	\$ 181,687	\$ 27,997	209,684
2013	191,627	18,722	210,349
2014	153,665	7,603	161,268
2015	12,783	3,223	16,006
2016	13,286	2,720	16,006
2017-2020	58,686	5,338	64,024
Totals	<u>\$ 611,734</u>	<u>\$ 65,603</u>	<u>\$677,337</u>

	Total Amount	June 30, 2011 Current Portion	Long-Term Portion
<u>Long-Term Debt</u>			
City National Bank – Total loan \$1,865,497. Payable \$48,418 quarterly including interest at 5.45%	\$ 491,511	\$ 170,332	\$ 321,179
Energy Conservation – Total loan \$175,000. Payable \$8,002 semi-annually including interest at 3.95%	120,223	11,355	108,868
Total Long-Term Debt	<u>\$ 611,734</u>	<u>\$ 181,687</u>	<u>\$ 430,047</u>

MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 9 – LEASE OBLIGATIONS

A. Operating Leases

The District has entered into operating leases for facilities and equipment as of June 30, 2011, that require payments extending for a period longer than twelve months. Future payments as of June 30, 2011, are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Amount</u>
2012	\$ 10,249
Total	<u>\$ 10,249</u>
Rental Expenditures	
Fiscal Year 2010/2011	<u>\$ 25,638</u>

B. Capital Leases

As of June 30, 2011, the District has not entered into any lease agreements where title will pass upon the expiration of the lease.

NOTE 10 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year ended June 30, 2011, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for any of the past three fiscal years.

The District is a participant in the Special District Risk Management Authority (SDRMA) formed for the purpose of providing insurance to its member agencies.

At June 30, 2011, SDRMA maintained general liability, automobile liability, workers' compensation and public officials' liability insurance coverage of \$5,000,000 per occurrence with \$500,000 self-insurance retention covered by a purchased policy. Inasmuch as SDRMA is acting as a broker obtaining low cost policies for its members, joint venture disclosure is not applicable.

At June 30, 2011, SDRMA also maintained property liability insurance coverage of \$1,000,000,000 per claim and claims above the self-insurance limits as required by law. Inasmuch as SDRMA is acting as a broker obtaining low cost policies for its members, joint venture disclosure is not applicable.

NOTE 11 – EMPLOYEE RETIREMENT SYSTEMS

A. Defined Benefit Plan

Plan Description The Mojave Desert Air Quality Management District employees participate in the San Bernardino County Employees' Retirement Association (SBCERA), which is a defined benefit pension plan (the "Plan") operating under the California County Employees' Retirement Act of 1937. All full-time, regular employees of the Mojave Desert Air Quality Management District are members of the plan.

MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 11 – EMPLOYEE RETIREMENT SYSTEMS (Continued)

Employees become eligible for membership on their first day of regular employment and become fully vested after five years. General members are eligible for retirement benefits upon completion of ten years of service and attaining age fifty, or thirty years of service regardless of age. Retirement benefits are calculated at 2% of final compensation for each completed year of service based on a normal retirement age of fifty-five for general members. The Plan also provides disability benefits to members and death benefits to beneficiaries of members.

Employee and Employer Contribution Obligations Employees are required to contribute a percentage of their annual compensation to the Plan based on the member's age at entry into the Plan. Participating members contribute an amount, based on actuarial assumptions, that, together with employer contributions, is intended to provide sufficient reserves for payment of all prospective benefits to members. Employees of the District may also elect to have the District make contributions on their behalf under a contribution benefit option plan instituted by the District. Rates at June 30, 2011, are as follows:

<u>Category</u>		<u>Rates as a Percentage of Wages</u>
General Members	Employee	8.95% to 12.84%
	Employer	19.97%

Funding Status and Progress The amount shown below as the "pension benefit obligation" is a standardized measure of the present value of pension benefits, adjusted for the effects of step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help assess the funding status of the system on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons with other public employee retirement systems. The measure is the actuarial present value of credited projected benefits and is independent of the funding methods used to determine contributions to the SBCERA.

The pension benefit obligation was determined as part of an actuarial valuation performed as of June 30, 2009. Significant actuarial assumptions used in the valuation include (a) a rate of return on the investment of present and future assets of 8.00% per year, (b) projected salary increases of 5.00% to 13.25% per year, attributable to inflation, and (c) cost of living of 2.00% per year.

SBCERA does not maintain pension data on an entity basis; therefore, separate pension fund information for District employees is not available.

Actuarially Determined Contribution Requirements and Contributions Made SBCERA uses the Projected Unit Credit Normal Cost Method, which is an accrued benefit method. That is, it focuses on benefits earned by employees of service through valuation date.

According to the "benefit" method, the normal cost is the actuarial present value on the valuation date of the benefits credited for employee service through that date.

The significant actuarial assumptions used to compute the actuarially determined contribution requirement are the same as those used to compute the pension benefit obligation, as previously described.

Trend Information Trend Information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Ten-year historical trend information for the SBCERA presenting progress in accumulating sufficient assets to pay benefits when due is presented in the County of San Bernardino's June 30, 2009, Comprehensive Annual Financial Report (CAFR).

MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 11 – EMPLOYEE RETIREMENT SYSTEMS (Continued)

B. Deferred Compensation Plan

District employees may participate in the “Mojave Desert Air Quality Management District Deferred Compensation Plan” established pursuant to Internal Revenue Code Section 457. The plan is administered by ING Aetna Financial Services, Inc. and all contributions are made entirely from employee compensation. No District contribution is required or made.

C. Matching Contribution Plan

District employees participating in the Deferred Compensation Plan become participants in the “Mojave Desert Air Quality Management District 401(a) Matching Contribution Plan” established pursuant to Internal Revenue Code Section 3401(a). The District (Employer) shall make matching contributions for each participant equal to a specified percentage of his or her salary deferrals made during the plan year under the Deferred Compensation Plan. For the fiscal year ended June 30, 2011, the Employer matched 100 percent up to 6 percent of the participant’s deferral. Employee voluntary contributions are not permitted under the plan. Vesting in the District’s matching contribution is based on years of continuous service as follows:

<u>Completed Years of Service</u>	<u>Nonforfeitable Percentage</u>
0-4	0%
5	100%

A participant shall be entitled to benefits under this plan upon termination of service due to death, disability or retirement.

D. Flexible Benefit Plan

District employees may participate in the “Mojave Desert Air Quality Management District Flexible Benefit Plan” established pursuant to Internal Revenue Code Section 125. The plan allows for District employees to elect between taxable and nontaxable fringe benefits and compensation. The District makes payment to employees pursuant to negotiated bargaining agreement.

NOTE 12 – POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

A. Benefit Plan

In addition to the pension benefits described in Note 11, the District provides post employment benefits for health care. This coverage is self-insured on a pooled basis through the California Public Employees’ Retirement System (CalPers).

Eligibility for District-paid Benefits

All District pays to eligible retired employees two percent (2%) per service year of the premium of CalPers health insurance for the employee and his or her spouse, but not to exceed the Flexible Benefit amount for a full time employee. Such benefit is payable from the date of retirement to (5) years, or until the date retiree becomes eligible for Medicare, or until the date retiree discontinues the coverage, whichever occurs first.

Retiring employee shall be eligible for retiree medical benefits under the following conditions:

- A. Retiring employee must be enrolled in a CalPers health plan at the time of the retirement.

MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 12 – POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (Continued)

- B. Retiring employee must have served a minimum of ten (10) years of public service with the District.
- C. Retiring employee must have a minimum total of twenty (20) years of public service with any of the member agencies of the District and any air district in California. For the purpose of this subsection, a “member agency” is defined as a city or county that lies in whole or in part within the boundaries of the District.

B. Funding Policy

As required by GASB 45, an actuary will determine the District’s Annual Required Contributions (ARC) at least once every two fiscal years. The ARC is calculated in accordance with certain parameters, and includes (1) the Normal Cost for one year, and (2) a component for amortization of the total unfunded actuarial accrued liability (UAAL) over a period not to exceed 30 years.

GASB 45 does not require pre-funding of OPEB benefits. Therefore, the District’s funding policy is to continue to pay healthcare premiums for retirees as they fall due. The District has elected to establish an irrevocable trust at this time. The Board Members reserve the authority to review and amend this funding policy from time to time, in order to ensure that the funding policy continues to best suit the circumstances of the District.

C. Annual OPEB Cost and Net OPEB Obligation/(Asset)

The following table shows the components of the District’s Annual OPEB cost for the fiscal year ended June 30, 2011, the amount actually contributed to the plan, and changes in the District’s Net OPEB Obligation/(Asset).

<u>Item</u>	<u>FYE 06/30/2011</u>
Annual Required Contributions	\$ 190,200
Interest on Net OPEB Obligation/(Asset)	0
Adjustment to Annual Required Contributions	0
Annual OPEB cost (expense)	190,200
Contributions made	(100,000)
Increase in Net OPEB Obligation/(Asset)	90,200
Net OPEB Obligation/(Asset) - beginning of year	90,200
Net OPEB Obligation /(Asset) - end of year	<u>\$ 180,400</u>

The district’s Annual OPEB Cost, the percentage of Annual OPEB cost contributed to the plan, and the Net OPEB Obligation/(Asset) for the fiscal year ended June 30, 2011 are shown in the following table. Only two year’s information is available since fiscal year 2010 was the District’s initial year of implementation for GASB Statement No. 45.

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Actual Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation/(Asset)</u>
06/30/2010	\$ 190,200	\$ 100,000	52.58%	\$ 90,200
06/30/2011	\$ 190,200	\$ 100,000	52.58%	\$ 180,400

MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 12 – POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (Continued)

D. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the type of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The plan's most recent actuarial valuation was performed as of July 1, 2009. In that valuation, the Projected Unit Credit (PUC) Cost Method was used. The actuarial assumptions included a 6 percent investment rate of return (net of administrative expenses), an annual medical cost trend rate of 3.5 percent initially, increased by decrements to an ultimate rate of 5 percent after 4 years. These assumptions reflect an implicit 3.0 percent general inflation assumption. The District's unfunded actuarial accrued liability is being amortized as a level dollar amount on an open basis over 30 years. The remaining amortization period as of June 30, 2011, was 30 years.

NOTE 13 – DEFERRED REVENUE

- A. The State of California Air Resources Board established the Carl Moyer Memorial Air Quality Standards Attainment Program to provide incentives for participating entities to undertake reduced-emission heavy-duty engine projects. The District applied for the Program and received funding under this program as follows:

	Round of Funding						
	VIII	IX	X	XI	XII	XIII	Total
<u>Grant Funding</u>							
Amount Awarded to Date	\$ 721,681	\$ 665,784	\$ 664,740	\$ 610,379	\$ 546,689	\$ 517,023	\$ 3,726,296
Amount Expended to Date	<u>(721,681)</u>	<u>(665,784)</u>	<u>(661,721)</u>	<u>(610,379)</u>	<u>(2,000)</u>	<u>0</u>	<u>(2,661,565)</u>
Total Grant Deferred	<u>0</u>	<u>0</u>	<u>3,019</u>	<u>0</u>	<u>544,689</u>	<u>517,023</u>	<u>1,064,731</u>
<u>Administrative Support Funding</u>							
Amount Awarded to Date	16,735	73,834	104,516	67,820	60,743	57,447	381,095
Amount Expended to Date	<u>(16,735)</u>	<u>(73,834)</u>	<u>(104,516)</u>	<u>(62,277)</u>	<u>(30,882)</u>	<u>0</u>	<u>(288,244)</u>
Total Grant Deferred	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 5,543</u>	<u>\$ 29,861</u>	<u>\$ 57,447</u>	<u>\$ 92,851</u>

As of June 30, 2011, the District had identified and committed funds per grant requirements, but had not yet expended all of the program revenues. Since the District would be required to repay program revenue not used, the criteria for recognizing this program revenue as income is not met until District expenditures are actually made. The Carl Moyer Program income will be reflected as deferred revenue until the expenditures are made in subsequent periods.

**MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 14 – COMMITMENTS AND CONTINGENCIES

A. Contingencies

The District participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

B. Litigation

The District was involved in several matters of litigation as of June 30, 2011. There is a large potential for future lawsuits from environmentalists and other organizations that are in disagreement with manufacturing and other types of business activities that may have emissions as a result of their production activities and it appears to be no insurance available to help off-set these potential claims. The outcomes of these matters of litigation are uncertain as of June 30, 2011.

C. State and Federal Allowances, Awards and Grants

The District has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursements will not be material.

NOTE 15 – SUBSEQUENT EVENTS

The District had no reportable subsequent events as of the date of the auditor's report, which is the date the financial statements were available to be issued.

NOTE 16 – COMPLIANCE AND ACCOUNTABILITY

A. Finance-Related Legal and Contractual Provisions.

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
None reported	Not applicable

B. Deficit Fund Balance or Fund Net Assets of Individual Funds

Following are funds having deficit fund balances or fund net assets at year-end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
None reported	Not applicable	Not applicable

REQUIRED SUPPLEMENTARY INFORMATION

**MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2011**

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Antelope Valley Air Quality Management Contract	\$ 1,075,910	\$ 1,075,910	\$ 1,089,719	\$ 13,809
Application and Permit Fees	4,135,490	4,135,490	4,186,654	51,164
AB 2766 and Other Program Revenues	1,545,220	1,545,220	1,490,159	(55,061)
Grants	261,000	261,000	271,716	10,716
Fines	60,000	60,000	95,720	35,720
Investment Earnings	30,000	30,000	18,495	(11,505)
Miscellaneous	0	0	17,071	17,071
Total Revenues	7,107,620	7,107,620	7,169,534	61,914
EXPENDITURES				
Public Safety:				
Salaries and Benefits	5,027,368	5,027,368	4,530,391	496,977
Services and Supplies	1,195,131	1,195,131	1,015,657	179,474
Contributions to Other Participants	498,805	498,805	510,219	(11,414)
Debt Service:				
Principal	161,356	161,356	172,288	(10,932)
Interest and Fiscal Charges	48,644	48,644	37,396	11,248
Capital Outlay:				
Improvements and Equipment	565,500	565,500	232,417	333,083
Total Expenditures	7,496,804	7,496,804	6,498,368	998,436
Excess (Deficiency) of Revenues Over (Under) Expenditures	(389,184)	(389,184)	671,166	1,060,350
OTHER FINANCING SOURCES (USES)				
Operating Transfers Out	(465,805)	(465,805)	(350,910)	(114,895)
Total Other Financing Sources (Uses)	(465,805)	(465,805)	(350,910)	(114,895)
Net Change in Fund Balances	(854,989)	(854,989)	320,256	1,175,245
Fund Balance - Beginning of Year	2,038,183	2,038,183	2,038,183	0
Fund Balance - End of Year	\$ 1,183,194	\$ 1,183,194	\$ 2,358,439	\$ 1,175,245

The accompanying notes are an integral part of these statements.

**MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
BUDGETARY COMPARISON SCHEDULE - MOBILE EMISSIONS PROGRAM
FOR THE YEAR ENDED JUNE 30, 2011**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Investment Earnings	\$ 0	\$ 0	\$ 18,267	\$ 18,267
Total Revenues	0	0	18,267	18,267
EXPENDITURES				
Public Safety Services and Supplies	400,000	400,000	120,210	279,790
Total Expenditures	400,000	400,000	120,210	279,790
Excess (Deficiency) of Revenues Over (Under) Expenditures	(400,000)	(400,000)	(101,943)	298,057
OTHER FINANCING SOURCES (USES)				
Operating Transfers In	365,805	365,805	350,910	(14,895)
Total Other Financing Sources (Uses)	365,805	365,805	350,910	(14,895)
Net Change in Fund Balances	(34,195)	(34,195)	248,967	283,162
Fund Balance - Beginning of Year	1,985,736	1,985,736	1,985,736	0
Fund Balance - End of Year	<u>\$ 1,951,541</u>	<u>\$ 1,951,541</u>	<u>\$ 2,234,703</u>	<u>\$ 283,162</u>

The accompanying notes are an integral part of these statements.

**MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
BUDGETARY COMPARISON SCHEDULE - CARL MOYER PROGRAM
FOR THE YEAR ENDED JUNE 30, 2011**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Grants	\$ 745,173	\$ 745,173	\$ 228,563	\$ (516,610)
Investment Earnings	0	0	5,017	5,017
Total Revenues	745,173	745,173	233,580	(511,593)
EXPENDITURES				
Public Safety:				
Services and Supplies	745,173	745,173	87,562	657,611
Contributions to Other Participants	0	0	141,000	(141,000)
Total Expenditures	745,173	745,173	228,562	516,611
Excess (Deficiency) of Revenues Over (Under) Expenditures	0	0	5,018	5,018
OTHER FINANCING SOURCES (USES)				
Operating Transfers In	0	0	0	0
Total Other Financing Sources (Uses)	0	0	0	0
Net Change in Fund Balances	0	0	5,018	5,018
Fund Balance - Beginning of Year	320,534	320,534	320,534	0
Fund Balance - End of Year	<u>\$ 320,534</u>	<u>\$ 320,534</u>	<u>\$ 325,552</u>	<u>\$ 5,018</u>

The accompanying notes are an integral part of these statements.

**MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
OTHER POST EMPLOYMENT BENEFIT PLAN
SCHEDULE OF FUNDING PROGRESS
JUNE 30, 2011**

The funded status of the plan as of June 30, 2011, the end of the first year of GASB 45 applicability, was as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Projected Unit Credit Actuarial Accrued Liability</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
July 1, 2009	\$ 0	\$ 1,421,221	\$ 1,421,221	0%	\$ 2,581,966	55%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the Annual Required Contributions of the District are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, as presented shows where the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. Because the fiscal year ended June 30, 2010, is the year of implementation of GASB No. 45, only one year is presented in the schedule at this time. In future years, required three year trend analysis will be presented.

SUPPLEMENTARY INFORMATION

**MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
DISTRICT SUMMARY, GOVERNING BOARD AND PERSONNEL
JUNE 30, 2011**

DISTRICT SUMMARY

The Mojave Desert Air Quality Management District is a local agency with the primary responsibility for the development, implementation, monitoring, and enforcement of air pollution control strategies and motor vehicle use reduction measures. The District represents the citizens of the Mojave Desert district in influencing the decisions of other public and private agencies whose actions may have an adverse impact on air quality within the Mojave Desert district. The District began operations on July 1, 1993, by assuming the authority of the San Bernardino County Air Pollution Control District that ceased operations. The District is governed by an appointed Governing Board from areas within its boundaries.

As of June 30, 2011, the Governing Board consisted of the following:

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>REPRESENTED AREA</u>
Joe Gomez	Chair	City of Barstow
Brad Mitzelfelt	Vice Chair	County of San Bernardino
John Benoit	Member	County of Riverside
Joseph "Joey" DeConinck	Member	City of Blythe
Barbara Cram Riordan	Member	Public Member
Russ Blewett	Member	City of Hesperia
John Cole	Member	City of Twenty-Nine Palms
Mike Rothschild	Member	City of Victorville
Barb Stanton	Member	Town of Apple Valley
Neil Derry	Member	County of San Bernardino
Ed Camargo	Member	City of Adelanto
Isaac Hagerman	Member	Town of Yucca Valley
Janice Rutherford	Member	County of San Bernardino
Terry Campbell	Member	City of Needles

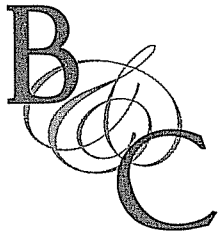
PERSONNEL

Eldon Heaston – Executive Director / Air Pollution Control Officer

Karen K. Nowak –District Counsel

Jean Bracy - Director of Administrative Services

OTHER INDEPENDENT AUDITOR'S REPORT



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LAURA A. BRADFORD, CPA

TERESA YATES, CPA

TERRY L. SNEDIGAR, EA

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Governing Board
Mojave Desert Air Quality Management District
Victorville, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mojave Desert Air Quality Management District, as of and for the year ended June 30, 2011, which collectively comprise the Mojave Desert Air Quality Management District's basic financial statements and have issued our report thereon dated November 1, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mojave Desert Air Quality Management District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Mojave Desert Air Quality Management District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Mojave Desert Air Quality Management District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mojave Desert Air Quality Management District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**BURKEY COX
EVANS & BRADFORD**

ACCOUNTANCY CORPORATION

Mojave Desert Air Quality Management District

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We noted certain matters that we reported to management of Mojave Desert Air Quality Management District, in a separate letter dated November 1, 2011.

This report is intended solely for the information and use of management, others within the entity, and Governing Board, and is not intended to be and should not be used by anyone other than these specified parties.

Burkey & Cox, CPAs
BURKEY COX EVANS & BRADFORD
Certified Public Accountants

Palmdale, California
November 1, 2011